



Canadian Investors: Should You Invest in Real Estate or Stocks Over the Next Decade?

Description

Unless your last name happens to be Buffett, Gates, or Bezos, you have capital restraints. It's just a fact of life.

This forces enterprising investors to make a difficult choice, at least during the first part of their investing lives. Without enough money to diversify across asset classes, an investor must choose one over the others.

While there are literally hundreds of things you could invest in, most investors will narrow their choices down to two main categories: real estate or stocks. Both have proven to be excellent investments over the years, especially when purchased at lows in the cycle.

There's just one problem: pundits everywhere are declaring both sectors overvalued. There's no clear choice based on valuation alone. This makes the decision more difficult.

Let's take a closer look at the two main investing choices and see if we can come up with a clear answer.

Real estate

Many experienced real estate investors just can't believe how stretched valuations have become, especially in Canada's major cities.

Toronto is the perfect example. Many condos — especially in downtown and other sought after areas — don't even rent for enough to cover the mortgage. The landlord is forced to cover other expenses like property tax, maintenance, and insurance out of pocket.

I've always believed real estate was a cash flow game, while capital appreciation was a nice bonus. Investors in Toronto, Vancouver, and other major cities have flipped the equation around and made it all about the price of the asset.

It isn't like this everywhere in the country, however. Smaller cities still offer interesting real estate investment opportunities. I have personally considered both Fredericton and Moncton as potential markets. Both cities offer attractive cap rates of 10% (or more). Sure, unemployment and median incomes are slightly lower in Atlantic Canada, but cheaper rents also prevail.

But we can't look at returns without accounting for the extra work involved. It takes far more effort for a landlord to rent out property than simply buying a stock. I'd recommend any potential landlord factor in property management fees.

Many folks interested in real estate may find they're attracted to a real estate investment trust, which offers comparable income without all the hassle of being a landlord.

Take **Northview Apartment REIT** (TSX:NVU.UN) as an example. The company owns more than 24,000 units in more than 60 cities across Canada. Shares trade at \$22.20 today — a bargain compared to 2016's funds from operations of \$2.21 per share. Northview pays out a dividend of \$1.63 per share annually, giving it a payout ratio of 74%. Shares currently yield 7.3%.

Stocks

It's always bothered me when I hear investors who pick individual stocks lament about an overvalued market. Not everything is expensive!

Take **Altagas Ltd.** ([TSX:ALA](#)) as an example. Shares are temporarily depressed because many investors aren't huge fans of the company's proposed \$8.4 billion acquisition of **WGL Holdings**. Before the deal was rumoured, Altagas shares hit \$34 each. These days, the company's stock is under \$31.

Altagas isn't just expanding via acquisition; it also has a number of growth projects on the go. It spent some \$500 million on these projects in 2016 with plans to spend almost \$3 billion more between now and 2020. These assets are projected to increase EBITDA about 50%.

Today, Altagas has a market cap of \$5.2 billion. It delivered normalized funds from operations of \$554 million in 2016. That gives it a price-to-funds-from-operations ratio of less than 10, which makes shares attractively valued today.

Additionally, the company pays one of the best dividends out there. The current yield is 6.8%, and management has grown the payout an average of 8% over the last seven years. The payout ratio is just 57% of normalized funds from operations.

The bottom line

There is no simple answer when we look at investing in stocks or real estate over the next year, five years, or decade.

Ultimately, it comes down to this: the market is filled with millions of potential real estate investments and thousands of different stocks. Find the individual investment that ticks all of your boxes.

For my portfolio, the answer is simple: I'll continue to look for undervalued stocks. I couldn't care less if the market is overvalued; there will always be pockets of value.

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1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

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1. Msn
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Date

2025/09/30

Date Created

2017/04/06

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